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SUBJECT: AZERBAIJAN'S NEW ENVIRONMENTAL PLANS PRESENTS
OPPORTUNITIES FOR US COMPANIES

Classified By: DCM JASON P. HYLAND FOR REASONS 1.4 (B) AND (D).

11. (C) SUMMARY: During a March visit by the Regional Environment, Science, Technology and Health (ESTH) HUB Officer, a range of officials provided more details on the GOAJ's new five-year, USD 500 million environmental clean-up plan. Although implementation of the September 2006 Presidential Decree and subsequent action plan remains slow, it seems there are opportunities for US diplomatic and commercial engagement. Minister of Ecology Bagirov said he would welcome more US engagement on environmental issues and identified lake clean-up efforts on the Absheron peninsula as one area that could benefit from US commercial expertise. Local environmental experts noted that Azerbaijan's endemic corruption problems could complicate the GOAJ's clean-up efforts. In spite of Azerbaijan's challenging business climate, we believe the environmental sector presents interesting opportunities. The challenge now is to clarify the roles of key actors and identify the best way to encourage U.S. companies expert in environmental clean up operations to seek out Azerbaijani opportunities. A USTDA Definitional Mission could be a good first step. END SUMMARY.

Background

12. (SBU) In September 2006, President Aliyev issued a Presidential decree calling for the improvement of the ecological state of Azerbaijan over the time frame 2006-2010. In this context, the Government issued a National Action Plan to implement these overarching goals. Implementing agencies included in the plan spanned 20 governmental agencies, including the Ministry of Ecology and Nature Protection, (MENR), Ministry of Emergency Situations (MES) and the State Oil Company of Azerbaijan (SOCAR). While the President's September decree and the follow-on action plan marked an important step forward in the way and seriousness in which environmental issues are addressed, implementation to-date has been slow. Much confusion remains regarding who has the lead within the government, what funds are actually available to begin work, and what role other agendas (for example land speculation by well-connected officials) may be playing in the process.

Minister of Ecology Says U.S. Involvement Welcome and Needed

13. (SBU) In a March 12 meeting with visiting ESTH HUB officer and Emboffs, MENR Minister Hussein Bagirov underlined that Azerbaijan is serious about addressing its environmental problems. He identified the following as the most pressing environmental problems facing the country: (1) damaged hydrology resulting from previous practices of pumping water into wells to get oil out that resulted in 800 polluted water surfaces; (2) land suffering from the impact of industrialization; (3) lack of sewerage treatment and solid waste disposal; and (4) overgrazing of land which he said is the most widespread and difficult problem to reverse. He noted that the GOAJ has dedicated USD 25 million in its 2007 state budget for various environmental projects and is committed to spending upwards of USD 500 million to address these issues over the next five years.

14. (SBU) Focusing on the oil clean-up activities, Bagirov noted that the funds SOCAR has at its disposal (estimated at 97 million USD) is significantly more than his Ministry's own resources. He agreed that projects of this magnitude (as well as other smaller nature protection initiatives such as the expansion and upgrading of Azerbaijan's National Parks) needed private sector involvement. In response to PolEcon Chief's statement that U.S. companies could provide the right expertise for Azerbaijan's clean-up efforts, Bagirov said the GOAJ would welcome U.S. participation, noting that Azerbaijan specifically could benefit from U.S. expertise in reviving dead lakes and disposing of dirty water which is a by-product of oil production.

World Bank Highlights Specific Needs

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15. (SBU) In a separate meeting, World Bank's Environment Officer Gulhana Hajiyeva said that while the majority of the Bank's future funding would be focused on infrastructure projects, its 2006-2009 Country Partnership Strategy contained "many strong environmental elements" including oil clean up, waste management and land rehabilitation. Commenting specifically on the resources SOCAR has as its disposal, Hajiyeva noted that SOCAR had created an environmental subsidiary) EKOL) that would be in charge of actually carrying out SOCAR's environmental clean-up activities. She added, however, that EKOL would definitely require technical assistance and highlighted the following areas: (1) certification that the land had been properly cleaned of toxins; (2) landplaning efforts to determine how the land should be used; (3) improved transparency regarding transfer of ownership of the land; and (4) technical cleaning technologies and equipment and experts trained to utilize them.

Notes of Caution Based on Previous Experiences

16. (C) In other meetings with ESTH Hub Officer, local environmental experts noted that Azerbaijan's pervasive corruption problems could complicate the GOAJ's clean-up efforts. Dr. Fagan Aliyev (please protect) of the NGO "International Ecoenergy Academy" recounted the frustrations and lack of transparency he has encountered over the years in dealing with the GOAJ on environmental issues. He pointed to a 1996 experience where he tried to form a joint venture for oil clean-up work with a U.S. soil remediation company. According to Aliyev, the GOAJ did not want to issue tenders and private downstream energy company AzPetrol received \$2.5 million in government funding, which he asserted produced no results as AzPetrol did not have the appropriate technical expertise to carry out the work. Aliyev argued that this experience pointed to a broader problem of Azerbaijani oil (and oil related) companies

jealously guarding their access to funds designated for environmental work.

17. (C) Dr. Bahruz Suleymanov, Director of the CRDF-supported research institution Azecolab (located within the government-run Institute of Radiation Problems⁸) outlined work his team is doing to obtain scientific data on the origin of radium in the polluted oil field lakes of Azerbaijan. The outcome of this research will provide valuable insights into the geologic history of the lakes and the water sources that feed them) information, Dr. Suleymanov made clear, that is critical in designing the best way to clean the lakes. (He noted that Azecolab is currently working with U.S. scientists to develop a model to explain this phenomenon to the GOAJ). Suleymanov said that although a number of important scientific questions remain unanswered, SOCAR is already moving ahead with clean-up activities on some of these polluted lakes. Suleymanov characterized SOCAR's haste to begin work before the data is complete as a mistake that will end up costing the government more in the long run. He noted that SOCAR has been under a lot of pressure to get this project underway as the polluted lands on the Absheron Peninsula are of high value and would later be resold to various real estate interests.

18. (C) Suleymanov also recounted his previous experiences with U.S. and other foreign companies that have excellent cleaning technologies but in the end decided the Azerbaijani business climate was not right for them. According to Suleymanov, many of these companies came to Azerbaijan, remained a couple of years and then left after they gave up trying to understand how the government worked, who the decision makers were, and how they could effectively get contracts. Suleymanov underlined, however, that there could be a market for U.S. expertise but that strong support from the U.S. Embassy would be critical.

One Company that Has found its Niche

19. (C) One international environmental services company that
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has found its niche in Azerbaijan is the British-owned Briggs Marine and Environmental Services, Ltd. Briggs' main customer is BP, for which it provides oil clean-up services. In spite of the company's relationship with BP, Briggs executives made it clear that they continue to face obstacles due to a lack of transparency in the GOAJ tender process. They reported that it often it is not clear which Ministry is in charge of a given project or to whom specifically they need to apply. Regarding the SOCAR clean-up plan, Briggs officials joked that they were "too professional" to get the job and speculated that contracts have probably already been decided. They said they have not been able to clarify if SOCAR has identified subcontractors or even the scope of work required. Briggs officials noted that they recently won a contract with the Ministry of Transportation to develop contingency plans in the event of railway oil spills, but said they were not certain if this reflected a change in the GOAJ operating philosophy or is a result of requirements specified by end-users. In the end, however, they agreed that President Aliyev has been moving toward a more serious posture on the environment and that this could manifest itself in new opportunities for international companies with the right technical expertise.

Comment

110. (C) Embassy Baku and Regional ESTH HUB believe that Azerbaijan currently offers significant opportunities for U.S. diplomatic and commercial engagement on environmental issues. President Aliyev's September decree and the GOAJ's

subsequent National Environmental Action plan provide the basis for broader USG engagement and advocacy. With billions in energy revenue pouring into the state budget over the next year, Azerbaijan now has the means to tackle its environmental problems although its difficult business environment certainly will complicate GOAJ clean-up efforts. We will continue to work with GOAJ officials to determine clear lines of responsibility and opportunities for US involvement in the new Environmental Action Plan; we also recommend that USTDA consider a definitional mission to explore opportunities in this emerging trade sector.

11. (U) This cable was co-drafted by Embassy Baku and the Budapest-based ESTH Regional HUB Officer for Central and Eastern Europe and the Caucasus.
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